



Financial Statements  
June 30, 2012

# South Dakota Soybean Research & Promotion Council

# South Dakota Soybean Research & Promotion Council

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June 30, 2012

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## **Independent Auditor's Report**

The Board of Directors  
South Dakota Soybean Research & Promotion Council  
Sioux Falls, South Dakota

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of the South Dakota Soybean Research & Promotion Council as of June 30, 2012, and the related statement of receipts, expenditures, and changes in fund balances arising from cash transactions – budget and actual. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits of *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in Note 1, these financial statements present only the South Dakota Soybean Research & Promotion Council and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2012, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of the South Dakota Soybean Research & Promotion Council as of June 30, 2012, and the revenues it received and expenditures it paid and changes in fund balances and the respective budgetary comparison for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of the South Dakota Soybean Research & Promotion Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The South Dakota Soybean Research & Promotion Council has not presented Management's Discussion and Analysis (MD&A) or certain budgetary information as required by the Governmental Accounting Standards Board that has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The Listing of Council Officials, page 16, and the Contracts in Progress Schedule, page 17, which is the responsibility of management, are presented for purposes of supplementary information and are not a required part of the basic financial statements. The listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In connection with our audit, and except as discussed in the Schedule of Findings and Responses as Finding 2012-3, nothing came to our attention that caused us to believe that the South Dakota Soybean Research & Promotion Council failed to comply with the terms, insofar as they relate to the accounting matters of the Soybean Promotion, Research and Consumer Information Act of 1990 (the "Act") and the Soybean Promotion and Research Order (the "Order") relative to the use of funds collected by the State Board and with the terms described in Section 1220.228(a) of the Order relative to prohibited uses of funds collected by the State Board.

In connection with our audit, nothing came to our attention that caused us to believe the South Dakota Soybean Research & Promotion Council failed to comply with terms insofar as they relate to the accounting matters of the Act and the Order relative to the investment of funds collected by the State Board and with provisions of Section 1220.211(j). However, our audit was not directed primarily toward obtaining knowledge of such noncompliance in the use and investment of funds.

This report is intended solely for the information and use of the Board of Directors and management of the South Dakota Soybean Research & Promotion Council, the United Soybean Board and the United States Department of Agriculture, and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Erik Sully LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota  
October 15, 2012

South Dakota Soybean Research & Promotion Council  
Statement of Assets, Liabilities and Fund Balances Arising from Cash Transactions  
June 30, 2012

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Assets

Cash and cash equivalents

Cash in checking	\$ 8,272
Investment in State Treasury Cash Management Pool	<u>8,125,363</u>

Total Assets	<u>\$ 8,133,635</u>
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Fund Balances

Restricted fund balances	<u>\$ 8,133,635</u>
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**South Dakota Soybean Research & Promotion Council**  
**Statement of Receipts, Expenditures, and Changes in Fund Balances Arising from Cash Transactions –**  
**Budget and Actual**  
**Year Ended June 30, 2012**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Receipts</b>			
Assessment revenue collected			
Collected from first purchasers	\$ 8,325,000	\$ 7,890,731	\$ (434,269)
Collected from other QSSBs	-	745,430	745,430
Collected from late fees	500	28	(472)
Total assessments collected	8,325,500	8,636,189	310,689
Less			
Assessment receipts remitted to USB	4,125,000	3,995,764	129,236
Assessment receipts remitted to other QSSBs	75,000	307,285	(232,285)
Net assessment receipts collected	4,125,500	4,333,140	207,640
Grants			
USB BioDiesel grants	-	6,073	6,073
USB Animal Ag grant	-	66,993	66,993
USB Smith Bucklin	-	15,971	15,971
USB Communications grants	-	2,400	2,400
Total grants	-	91,437	91,437
Other			
Interest	330,000	256,068	(73,932)
Miscellaneous income	100,000	100,000	-
Total other	430,000	356,068	(73,932)
Total receipts	4,555,500	4,780,645	225,145
<b>Expenditures</b>			
Programs			
Promotion	1,781,687	1,289,071	492,616
Research	2,804,531	2,333,305	471,226
Consumer information	434,919	150,141	284,778
Producer communications	682,663	692,799	(10,136)
Total programs	5,703,800	4,465,316	1,238,484
Administration			
Program operations	332,662	220,446	112,216
Equipment	28,409	23,369	5,040
Total administration	361,071	243,815	117,256
Total expenditures	6,064,871	4,709,131	1,355,740
(Deficit) Excess of Receipts over Expenditures	(1,509,371)	71,514	1,580,885
Fund Net Assets, Beginning of Year	8,062,121	8,062,121	-
Fund Net Assets, End of Year	\$ 6,552,750	\$ 8,133,635	\$ 1,580,885

See Notes to Financial Statements

## **Note 1 - Summary of Significant Accounting Policies**

### **Reporting Entity**

The South Dakota Soybean Research & Promotion Council (the Council) is certified as a Qualified State Soybean Board (QSSB) as defined in section 1220.228 of the Soybean Promotion and Research Order in the Federal Register (volume 56, 131) and is a state agency established under and governed by the laws of the State of South Dakota (State). The Council administers programs and activities that are subject to the 1990 Federal legislation titled Soybean Promotion, Research and Consumer Information Act (the Act). The Act was effective September 1, 1991. The Council is exempt from state and federal income taxes.

In accordance with Government Accounting Standards Board (GASB) Codification Section 2100, *The Financial Reporting Entity*, the Council should include all component units over which the Board exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on the organization, or (3) the potential for the organization to provide specific benefits to, or impose specific burdens on the Council. GASB Codification Section 2100.119, *Determining Whether Certain Organizations are Component Units* further defined reporting units as a legally separate tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Council or its constituents, and
- The Council or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Council is entitled to, or can otherwise access, are significant to the Council.

Based upon criteria set forth in GASB Codification Section 2100.119, no organizations were determined to be part of the reporting entity.

### **Fund Accounting**

The accounts of the Council are organized on the basis of a fund which is considered to be a separate accounting entity. The operations of the fund are accounted for with a self-balancing set of accounts that comprise its assets, fund balances, receipts and expenditures. Government resources are allocated to and accounted for in the fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

### **Governmental Fund Type**

The Soybean Check-Off Fund is a special revenue fund of the State maintained for the collection and disbursement of soybean check-off assessments. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State has granted the Council the authority to administer assets held in the Soybean Check-off Fund.

### **Basis of Accounting**

The Council's accounts are maintained on the cash basis, and the statements of receipts, expenditures, and changes in fund balances arising from cash transactions – actual and budget and the statement of assets, liabilities, and fund balances arising from cash transactions reflect only cash received and disbursed.

### **Cash and Cash Equivalents**

Cash and cash equivalents includes demand deposits and a participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at cost.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501. Funds on deposit with the State Treasury are invested by the State Investment Officer pursuant to SDCL 4-5-23 with the Council getting its proportionate share of interest income under SDCL 4-5-30. The Council did not have privately held investments as June 30, 2012.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Council does not have a deposit policy for custodial credit risk. The bank account is insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the Council's bank balance exceeded this limit.

### **Fund Balances**

Restricted fund balances represent revenues that are externally restricted or revenues that have restrictions imposed upon them, limited to the requirements of the Act.

### **Subsequent Events**

The Council has evaluated subsequent events through October 15, 2012, the date which the financial statements were available to be issued.



**Note 2 - Check-Off Fees**

Pursuant to the Act, an assessment of one-half of one percent of the net market price of soybeans grown in the State or sold to a first purchaser in the State is deducted from the purchase price of the soybeans by the first purchaser and remitted to the Council within thirty days of the end of each calendar quarter. One half of the collected assessments must be remitted to the United Soybean Board (USB) by the last day of the month following the quarter in which the assessment was remitted to the Council.

**Note 3 - South Dakota Soybean Association**

The Council contracts on a yearly basis with the South Dakota Soybean Association (the Association) to carry out programs designed to benefit the soybean industry. These programs include providing promotional, consumer, producer, and industry information to various entities and organizations worldwide. Additionally, the Council contracts on a yearly basis with the Association to share employees, including the Executive Director; office space; and certain overhead expenses.

For the year ended June 30, 2012, the total costs paid by the Council to the Association were \$337,821, and the total costs paid by the Association to the Council were \$18,478.

**Note 4 - Description of Financial Activity**

The titles and description for significant accounts that are used by the Council are as follows:

**Receipts**

*Collected from first purchasers* – assessments collected from South Dakota based first purchasers of soybeans, either sold or forfeited in lieu of loan payments

*Collected from other QSSBs* – assessments collected from other QSSB as a result of South Dakota based producers selling soybeans to an out-of-state purchaser

*Assessment receipts remitted to USB* – remittances to the USB are half of the total assessment receipts collected; net of refunds, remittances to other QSSBs, and allowable collection costs

*Assessment receipts remitted to other QSSBs* – remittances of assessments collected from South Dakota based first purchasers to the QSSB entitled to the receipt based on the producer's location

# South Dakota Soybean Research & Promotion Council

Notes to Financial Statements

June 30, 2012

## Disbursements

*Promotion* – any action, including ads, technical assistance, or trade serving to enhance the desirability of soybeans in international and domestic markets

*Research* – any type of study to advance the image, desirability, marketability, production, product development, quality, functional, or nutritional value of soybeans

*Consumer information* – information that will assist consumers in making purchase decisions about buying and using soybeans and soybean products

*Producer communications* – reporting to soybean producers of the Council's activities and an accounting for funds received and expended

*Program operations* – expenditures associated with the cost to conduct the activities of the Council and the Council's Board of Directors and expenses directly related to the activities conducted by the South Dakota Department of Agriculture for concentrated management services of fee collection, fiscal and personnel services, and data processing services

## Note 5 - Statement of Expenditures Paid – Budget and Actual (Budgetary Basis)

The Council provides an informational budget to the State approximately two years in advance of the start of the fiscal year. The results of actual operations compared to the informational budget for the year ending June 30, 2012, are as follows:

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
Contractual services, including amounts remitted to the USB and other QSSBs recorded as a reduction of revenue	\$ 3,741,067	\$ 4,451,760	\$ (710,693)
Grants and subsidies	4,020,235	4,261,171	(240,936)
Employee salaries and benefits	242,361	280,373	(38,012)
Supplies and materials	10,500	18,876	(8,376)
Expenditures prior to remittance payments	<u>\$ 8,014,163</u>	9,012,180	<u>\$ (998,017)</u>
Less amounts remitted to the USB and other QSSBs recorded as a reduction of revenue		<u>(4,303,049)</u>	
Total expenditures		<u>\$ 4,709,131</u>	

Prior to the start of the fiscal year, the Council reviews the informational budget and makes changes as needed based on the current operational environment. The updated budget is approved by the Board and submitted to the USB and the United States Department of Agriculture's Agriculture Marketing Service. The budget shown on the statement of receipts, expenditures, and changes in fund balances arising from cash transactions – budget and actual in the accompanying financial statements differs from the informational budget shown above as it reflects the changes made to the informational budget prior to the start of the fiscal year.

**Note 6 - Operating Leases**

The Council has entered into leases for office space and office equipment under long-term operating leases. Under the office space lease arrangements, the Council pays all utilities and its share of the property taxes, insurance, maintenance and expenses related to the leased property.

The lease agreement for office space expires on June 30, 2016. Operating lease expense for the year ended June 30, 2012, was \$56,133. The estimated future minimum lease payments at June 30, 2012, are summarized as follows:

<u>Year Ending June 30,</u>	<u>Office Space</u>	<u>Office Equipment</u>
2013	\$ 46,604	\$ 11,398
2014	46,604	11,398
2015	46,604	11,398
2016	46,604	5,148
2017	-	1,287

**Note 7 - Risk Management**

The Council is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council carries commercial insurance for all significant risks of loss.

**Note 8 - Future Commitments**

The Council has committed approximately \$1,671,666 for funding of projects that were uncompleted as of June 30, 2012. These projects relate to soybean research, promotion, and other various activities aimed at enhancing consumer and producer awareness of soybeans and soybean related issues. The Council has paid approximately \$1,391,768 towards these projects as of June 30, 2012, and expects to pay the remaining \$279,898 during 2013.

In addition, the Council has committed to provide approximately \$1,706,426 in funding for projects to be completed during 2013. As of June 30, 2012, the entire amounts of these commitments remain outstanding.

**Note 9 - Retirement Plan**

The Council participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute six percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The Council's contributions to the SDRS for the years ended June 30, 2012, 2011, and 2010 were \$12,687, \$10,215, and \$9,069, respectively, equal to the required contributions for each year.

**Note 10 - Accumulated Unpaid Vacation and Sick Leave**

Annual leave is earned on a biweekly basis by employees at a rate based on their years of service. Upon termination employees are entitled to receive compensation for their accrued annual leave balance.

Sick leave is earned by the employees at the rate of approximately 4.67 hours per biweekly payroll period. Employees who have been continuously employed by the State for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment equal to one-fourth of their accumulated unused sick leave, not to exceed 480 hours.

As of June 30, 2012, balances for accrued vacation and sick leave were \$11,645 and \$3,714, respectively. Because the Council's accounts are maintained on the cash basis of accounting, these liabilities are not reflected in the accompanying financial statements.

**Note 11 - Miscellaneous Income**

The Council received reimbursement of \$100,000 for a project funded in the prior year which could not perform its contracted obligations.

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based  
on the Audit of Financial Statements Performed in Accordance with *Government Auditing  
Standards***

The Board of Directors  
South Dakota Soybean Research & Promotion Council  
Sioux Falls, South Dakota

We have audited the financial statements of the South Dakota Soybean Research & Promotion Council (the Council), a special revenue fund of the State of South Dakota, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as Findings 2012-1 and 2012-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2012-3.

The Council's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Directors, management, the United Soybean Board, and the South Dakota Department of Agriculture. This report is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota  
October 15, 2012

**Finding 2012-1 - Preparation of Full Disclosure Financial Statements**

**Criteria:** Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

**Condition:** The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

**Cause:** The Council has limited staff. They cannot justify having an individual on staff with the proper accounting skills necessary for preparing the draft financial statements and accompanying notes to the financial statements.

**Effect:** Inadequate controls over financial reporting of the Council could result in the likelihood that the Council would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

**Recommendation:** While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial accounting and reporting requirements of the Council as well as changes in these requirements.

**Management's Response:** Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.

**Finding 2012-2 - Review of Significant Reconciliations**

**Criteria:** Proper controls over financial reporting include oversight and review of significant reconciliations, including documentation of the performance of these processes.

**Condition:** The Council has a policy requiring oversight and review of monthly reconciliations of the funds held on deposit with the State of South Dakota (the State). The oversight and review of monthly reconciliations is occurring informally but is not being performed as a part of a consistent and documented process.

**Cause:** Oversight and review processes are conducted informally but not always as a part of a formally documented process.

**Effect:** Inadequate oversight over financial transactions of the Council could adversely affect the Council's ability to detect and correct misstatements that could be material to the financial statements on a timely basis.

**Recommendation:** We suggest that management review its current process and procedures to ensure that proper oversight is occurring at a level sufficient to help mitigate risks associated with errors in financial reporting and recording transactions.

**Management's Response:** We recognize that oversight and review of significant reconciliations, including documentation of the performance of oversight and review processes, is an important control in detecting and correcting misstatements that could be material to the financial statements. We will review the current procedures and make revisions as needed to ensure that the recommended procedures are taking place.

### **Finding 2012-3 - Compliance with United Soybean Board (USB) Regulations**

**Criteria:** Compliance with USB regulations includes maintaining contracts and disbursing funds in accordance with guidelines established in the USB's Compliance Manual.

**Condition:** During the year under audit, the Council made 681 disbursements of check-off monies. We reviewed sixty of these disbursements and found that all of the disbursements tested complied with USB regulations regarding the use of check-off funds as defined by Section 1220.230 of the Soybean Promotion, Research, and Consumer Act of 1990. In connection with this procedure, we reviewed twenty-two contracts. We found three instances where contracts contain some, but not all of the information required by the USB. Exceptions included contracts with incomplete determination of project reporting requirements, and no documentation addressing rights of ownership of project results and/or retention of records. In addition we noted one disbursement that, while in compliance with USB regulations regarding use of check-off funds, did not have a contract but should have based on the nature of the disbursement.

**Effect:** Not maintaining contracts in accordance with USB regulations could adversely affect the Council's compliance with USB regulations regarding the disbursement of check-off monies.

**Cause:** During the prior year the Council adopted a new Project Management System (the System) that is designed to gather information on funding requests. Prior to the development of the new System, there was not a formal process for ensuring contracted funding requests contained the elements required by the USB. The three contracts noted above were externally generated by organizations seeking funding and did not address all items required by USB.

**Recommendation:** We recommend that management continues to regularly discuss compliance requirements with the USB and continues to enhance the design and functionality of the System to ensure contracts are in compliance with USB regulations, and used as required. In addition, we recommend management request additional information on externally generated contracts, as needed, to ensure contracts contain all the provisions recommended by the USB.

**Management's Response:** We recognize that compliance with USB regulations regarding the maintenance of contract files is important to ensuring check-off monies are disbursed in accordance with USB regulations. We have reviewed the USB Compliance Manual and regularly discuss compliance requirements with USB. We will continue to make improvements to the System to ensure our contracts are in compliance with USB regulations and will thoroughly review all externally generated contracts to ensure they contain the items required by USB.



Audit findings reported in the financial statements issued June 30, 2011, are as follows:

**Finding 2011-1 - Preparation of Financial Statements**

Condition: The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Current Status: The Council has determined that it is not cost-effective for an organization of their size to have an individual on staff to prepare audit-ready financial statements. They have chosen to hire Eide Bailly to prepare their financial statements as part of the annual audit. A member of management has been designated to review the propriety of the draft financial statements and accompanying notes to the financial statements. The finding was repeated at Finding 2012-1 on the accompanying Schedule of Findings and Responses.

**Finding 2011-2 - Review of Significant Reconciliations and Oversight of Transactions**

Condition: The Council does not have a formal policy requiring approval and review of monthly reconciliations of the funds held on deposit with the State of South Dakota (the State). In addition, the Council does not have a policy requiring periodic reviews of transactions underlying wire transfer requests which move check off funds from the State to the general checking account.

Current Status: The recommendation was adopted by the Council to develop procedures to ensure proper oversight over transactions underlying wire transfer requests which move check off funds from the State to the general checking account. However, regular oversight and review of monthly reconciliations of monies held with the State is not yet occurring on a formal basis. The finding was repeated at Finding 2012-2 on the accompanying Schedule of Findings and Responses.

**Finding 2011-3 - Compliance with United Soybean Board (USB) Regulations**

Condition: During the course of our engagement, we reviewed the Council's compliance with USB regulations regarding the existence and content of contract files and their relationship to disbursements made with check-off monies. We found nine instances where contracts contain some, but not all of the information required by the USB. Exceptions found included contracts not signed by the receiver of the funds, no documentation of requirements to terminate financial responsibility, incomplete determination of project reporting requirements, and no documentation addressing rights of ownership of project results and/or retention of records. In addition we noted one disbursement that, while in compliance with USB regulations regarding use of check-off funds, did not have a contract but should have based on the nature of the disbursement.

Current Status: The Council adopted a Project Management System to help maintain compliance with USB regulations regarding project funding. However, we found instances in which the Council's contracts were not in compliance with certain USB regulations. The finding was repeated at Finding 2012-3 on the accompanying Schedule of Findings and Responses.



Supplementary Information  
June 30, 2012

## South Dakota Soybean Research & Promotion Council

**South Dakota Research and Promotion Council Board**

David Iverson, Chairman  
Doug Hanson, Vice Chairman  
Monica McCranie, Secretary/Treasurer  
Merlin Van Walleghen, Director  
Stan Hanson, Director  
Marc Reiner, Director  
Robert Metz, Director

**South Dakota Research and Promotion Council Executive Director:**

Jeremy Freking

**United Soybean Board Directors:**

Robert Metz  
Stan Hanson  
Lewis Bainbridge

**Ex Officio – South Dakota Department of Agriculture:**

Walt Bones, Secretary

# South Dakota Soybean Research & Promotion Council

Contracts in Progress Schedule

June 30, 2012

<u>Project Description</u>	<u>Budgeted</u>	<u>Expended</u>	<u>Balance</u>
Soybean Disease and Insect Pests Project	\$ 1,127,748	\$ 1,034,408	\$ 93,340
Aquafeed Research & Development Project	587,601	212,298	375,303
Soybean Pathologist Faculty Scholarship	80,000	-	80,000
Canada Building Better Relations	77,930	-	77,930
Improving Market Access	147,780	145,062	2,718
Stability Evaluation for Soybean Genotypes	29,293	-	29,293
BMP for Optimum Yield	151,730	-	151,730
Enhanced Tolerance to Environmental Stress	168,234	-	168,234
Development of High Yielding Soybean Varieties	40,000	-	40,000
Management of Soybean Insect & Mite Pests	86,937	-	86,937
Controlling Challenging Weeds with Herbicides	10,700	-	10,700
Soybean Diseases: Monitoring Risk	211,940	-	211,940
Protein Replacers for Aquaculture Feeds	34,872	-	34,872
Farming System Proposal	25,000	-	25,000
Plant Pathologist	80,000	-	80,000
SD Processors	50,000	-	50,000
Consumer Segments	39,000	-	39,000
Conference & Tradeshow	7,500	-	7,500
SD Center for Farm & Ranch Management	15,000	-	15,000
North Central Soybean Research Program	200,000	-	200,000
Soybean Ag Magazine	10,000	-	10,000
SD Agriculture & Rural Leadership Class VII	20,000	-	20,000
Agriculture Education Program	5,750	-	5,750
Multiple Soy Events	18,000	-	18,000
Estate Planning & Farm Transition	17,425	-	17,425
Membership for Promotion of Soybeans	10,000	-	10,000
Southeast Asia Overall Aquaculture Support	89,152	-	89,152
Soy Aquaculture Alliance	25,000	-	25,000
SD Producers & Rural Agri Businesses	10,000	-	10,000
Agriculture Appreciation Banquet	1,500	-	1,500
	<u>\$ 3,378,092</u>	<u>\$ 1,391,768</u>	<u>\$ 1,986,324</u>